

<b>Agency:</b>	<b>107</b> Health Care Authority
<b>Decision Package Code/Title:</b>	<b>PL-EY</b> Suspend Adult Pharmacy Benefits
<b>Budget Period:</b>	<b>2012 Supplemental</b>
<b>Budget Level:</b>	<b>PL – Performance Level</b>

#### **Fiscal Detail/Objects of Expenditure**

	<b>FY 2012</b>	<b>FY 2013</b>	<b>Total</b>
<b>1. Operating Expenditures:</b>			
Fund 001-1 General Fund State	\$ (42,499,000)	\$ (84,956,000)	\$ (127,455,000)
Fund 001-2 GF-Federal - Basic	\$ (45,000)	\$ (87,000)	\$ (132,000)
Fund 001-C GF-Federal - Medicaid	\$ (36,979,000)	\$ (73,144,000)	\$ (110,123,000)
Fund 001-7 GF-Private/Local	\$ -	\$ -	\$ -
Fund 16W-1 Hospital Safety Net	\$ -	\$ -	\$ -
Fund 418-1 HCA Admin Account	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ (79,523,000)</b>	<b>\$ (158,187,000)</b>	<b>\$ (237,710,000)</b>
<b>2. Staffing:</b>			
Total FTEs	-	-	-
<b>3. Objects of Expenditure:</b>			
A - Salaries And Wages	\$ -	\$ -	\$ -
B - Employee Benefits	\$ -	\$ -	\$ -
C - Personal Service Contracts	\$ -	\$ -	\$ -
E - Goods And Services	\$ -	\$ -	\$ -
G - Travel	\$ -	\$ -	\$ -
J - Capital Outlays	\$ -	\$ -	\$ -
N - Grants, Benefits & Client Services	\$ (79,523,000)	\$ (158,187,000)	\$ (237,710,000)
Other (specify) -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ (79,523,000)</b>	<b>\$ (158,187,000)</b>	<b>\$ (237,710,000)</b>
<b>4. Revenue:</b>			
Fund 001-2 GF-Federal - Basic	\$ (45,000)	\$ (87,000)	\$ (132,000)
Fund 001-C GF-Federal - Medicaid	\$ (36,979,000)	\$ (73,144,000)	\$ (110,123,000)
Fund 001-7 GF-Private/Local	\$ -	\$ -	\$ -
Fund 418-1 HCA Admin Account	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ (37,024,000)</b>	<b>\$ (73,231,000)</b>	<b>\$ (110,255,000)</b>

#### **Recommendation Summary Text**

Heath Care Authority (HCA) submits spending reductions totaling -\$237,710,000 (-\$127,455,000) GF-State) that would result from the suspension of coverage for adult outpatient prescription drugs provided by a retail pharmacy, for eighteen months, effective January 1<sup>st</sup>, 2012. This submittal is in response to the request for a ten percent across-the-board reduction plan.

#### **Package Description**

HCA will suspend coverage for adult outpatient prescription drugs provided by a retail pharmacy (for both fee-for-service and managed care plans), for eighteen months, effective January 1, 2012. These prescriptions will continue to be covered for Long Term Care clients who are under the supervision

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of Aging and Disability Services Administration (ADSA) and coverage will still be provided for medications administered in the physician's office and the outpatient hospital setting. Approximately 500,000 adults, mostly seniors and people with disabilities, will lose access to their prescription drugs.

Inpatient hospitalizations and emergency room visits will increase for treatment of infections that have reached a severity where they now require IV antibiotics. Hospitalization will become the primary care for clients who do not have access to insulin, mental health medications, respiratory and cardiac medications, anti-coagulants, and other life supporting medications. There will be a decline in health status and an increase in costs associated with more intensive services required to treat the more severely ill.

Due to the overall decline in client health and the increased inpatient hospital stays and emergency rooms utilization, the agency assumes that any savings associated with the suspension of adult outpatient drug coverage must be reduced by 42%.

The suspension of the adult outpatient prescription drug coverage will conflict with the federal Maintenance of Effort (MOE) requirements under National Health Reform. This MOE provision mandates that states cannot reduce coverage until after 2014 for adults and 2019 for children.

Questions related to this decision package should be directed to Rachel Arnold at (360) 725-1030 or [rachel.arnold@hca.wa.gov](mailto:rachel.arnold@hca.wa.gov).

#### **Narrative Justification and Impact Statement**

This proposal is intended to meet the Governor's request for agencies to submit plans for 10 percent reductions as a result of expected revenue shortfall for the 2011-13 Biennium.

#### **Performance Measure Detail**

Activity:	H091	Special Projects
Activity:	H067	Optional Health Care of Workers with Disabilities
Activity:	H056	Mandatory Medicaid Program for Children and Families
Activity:	H058	Medicaid Program for Aged, Blind, and Disabled

#### **What specific performance outcomes does the agency expect?**

This reduction package identifies savings in response to instructions provided by the Office of Financial Management (OFM) for the 2012 Supplemental Budget.

#### **Performance Measure Detail**

The reduction decision package will suspend coverage for adult outpatient prescription drugs, for eighteen months, effective January 1, 2012 and is estimated to save -\$127,455,000 in GF-State.

#### **Is this decision package essential to implement a strategy identified in the agency's strategic plan?**

Yes. This package will assist the agency in meeting the targeted reductions as identified by OFM.

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**Does this decision package provide essential support to one of the Governor’s priorities?**

Yes. This package assists the agency in implementing changes to meet the reduction targets identified by OFM as part of the 2012 Supplemental Budget and keeping the state’s budget balanced.

**Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government (POG) process?**

Yes. This package assists the agency in implementing changes to meet the reduction targets identified by OFM as part of the 2012 Supplemental Budget.

**What are the other important connections or impacts related to this proposal?**

Inpatient hospitalizations and emergency room visits will increase for treatment of infections that have reached a severity where they now require IV antibiotics. Hospitalization will become the primary care for clients who do not have access to insulin, mental health medications, respiratory and cardiac medications, anti-coagulants, and other life supporting medications. There will be a decline in health status and an increase in costs associated with more intensive services required to treat the more severely ill.

The suspension of the adult outpatient prescription drug coverage will conflict with the federal Maintenance of Effort (MOE) requirements under National Health Reform. This MOE provision mandates that states cannot reduce coverage until after 2014 for adults and 2019 for children.

**What alternatives were explored by the agency, and why was this alternative chosen?**

None, as this is a state only program, which will achieve the highest amount of general fund state savings towards the Governor’s 5% and 10% budget reduction targets.

**What are the consequences of not funding this package?**

The agency will not be able to meet its budget reduction targets.

**What is the relationship, if any, to the state capital budget?**

None.

**What changes would be required to existing statutes, rules, or contracts, in order to implement the change?**

Washington Administrative Code (WAC) 388-530 (Prescription drugs (outpatient)).

**Expenditure and revenue calculations and assumptions.**

***Revenue Calculations and Assumptions:***

***Expenditure Calculations and Assumptions:***

**Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?**

These changes in funding are one-time cost.

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***Distinction between one-time and ongoing costs:***

Not applicable.

***Budget impacts in future biennia:***

These changes in funding are one-time cost.

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## Potential Savings from Suspending Adult Pharmacy Benefits

*11-13 Biennium (Implementation Date 1/1/2012)*

*Net of Offset*

### *Fee-For-Service Drugs (Net of Rebates)*

	<b>State</b>	<b>Federal</b>	<b>Total</b>
FY12	\$34,340,000	\$28,865,000	<b>\$63,205,000</b>
FY13	\$68,111,000	\$56,386,000	<b>\$124,497,000</b>

### *Managed Care*

	<b>State</b>	<b>Federal</b>	<b>Total</b>
FY12	\$8,159,000	\$8,159,000	<b>\$16,318,000</b>
FY13	\$16,845,000	\$16,845,000	<b>\$33,690,000</b>

### **Total**

	<b>State</b>	<b>Federal</b>	<b>Total</b>
FY12	<b>\$42,499,000</b>	<b>\$37,024,000</b>	<b>\$79,523,000</b>
FY13	<b>\$84,956,000</b>	<b>\$73,231,000</b>	<b>\$158,187,000</b>

### **Assumptions**

- The department will suspend coverage for adult outpatient prescription drugs provided by a retail pharmacy, for eighteen months, effective January 1, 2011. These prescriptions will continue to be covered for Long Term Care clients who are under the supervision of Aging and Disability Services Administration (ADSA) and coverage will still be provided for medications administered in the physician's office and the outpatient hospital setting. Approximately 277,000 clients will lose access to prescription medication annually.
- The suspension of the adult outpatient prescription drug coverage will conflict with the federal Maintenance of Effort (MOE) requirements under National Health Reform. This MOE provision mandates that states cannot reduce coverage until after 2014 for adults and 2019 for children.
- Inpatient hospitalizations and emergency room visits will increase for treatment of infections that have reached a severity where they now require IV antibiotics. Hospitalization will become the primary care for clients who do not have access to insulin, mental health medications, respiratory and cardiac medications, anti-coagulants, and other life supporting medications. There will be a decline in health status and an increase in costs associated with more intensive services required to treat the more severely ill.
- Due to the expected increase in hospitalization and emergency room utilization, and an overall decline in the health status of our clients, the agency assume that all savings associated with the elimination of adult outpatient drug coverage must be offset by 42%.
- "Fee For Service Drugs" includes managed care rebates and Biennium Budget Adjustments. These adjustments reflect 2011-13 Biennium budget reductions that are not factored into the Feb 2011 forecast including: E08 Medication Practice Improvement, E32 Drug Utilization Management, and E33 Drug Co-Pays.